

**Review of the Railroad Retirement Board's Progress in Meeting
Selected Federal Financial Management Requirements
Report No. 03-04, March 18, 2003**

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) review of the Railroad Retirement Board's (RRB) progress in meeting selected Federal financial management requirements.

Background

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The RRB paid approximately \$8.8 billion in benefits during fiscal year (FY) 2002.

The President's Management Agenda, Fiscal Year 2002 includes a government-wide initiative to ensure that Federal financial systems produce accurate and timely information to support operating, budget, and policy decisions. The focus of the initiative is to improve the timeliness, usefulness and reliability of financial reports of Federal agencies, their components and the government as a whole.

Office of Management and Budget (OMB) Circular A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

The Joint Financial Management Improvement Program (JFMIP) is a joint undertaking of the U.S. Department of the Treasury, the General Accounting Office, OMB, and the Office of Personnel Management working in cooperation with each other, with other agencies, and with the private sector, to improve financial management practices in the Federal government. The JFMIP promotes strategies and sponsors projects to improve financial management across the Federal government.

The Bureau of Fiscal Operations, under the direction of the agency's Chief Financial Officer, has primary responsibility for financial management and reporting. These activities are supported by automated and non-automated systems including a mainframe general ledger, integrated budgeting and purchasing subsystems, and multiple non-integrated feeder systems. Non-integrated feeder systems include those supporting receivables and fixed asset management, benefit payment operations, cost accounting and personnel/payroll activity.

This study addresses areas of management performance that support the RRB's strategic goal of safeguarding agency trust funds through prudent stewardship.

Objective, Scope and Methodology

The objective of this review was to assess the RRB's progress in meeting the following selected financial management requirements of OMB Circular A-127 during FY 2002:

- Agency-wide Financial Information Classification Structure;
- Integrated Financial Management Systems;
- Application of the U.S. Standard General Ledger at the transaction level;
- Federal Accounting Standards;
- Financial Reporting;
- Budget Reporting; and
- Functional Requirements.

To accomplish our objective, we:

1. interviewed responsible management and staff;
2. identified applicable JFMIP system requirements;
3. analyzed the flow of financial data between the general ledger and the major integrated and non-integrated feeder systems;
4. obtained self-assessments of JFMIP compliance for the personnel/payroll and cost accounting systems;
5. evaluated the data elements and transaction processing definitions in the core financial system and its integrated subsystems with the requirements of the U.S. Standard General Ledger;
6. identified controls and tested data-entry for selected non-integrated subsystems;
7. reviewed opinions and reports issued pursuant to annual audits of the RRB's financial statements; and
8. reviewed prior audit reports with findings related to financial management and financial management systems.

OMB Circular A-127 also requires that Federal agencies ensure security over financial management information systems in accordance with OMB Circular A-130. The OIG has previously assessed internal control weaknesses related to security at the level of material weakness.¹ Agency management has concurred with the OIG's overall findings and is in the process of taking corrective action. Accordingly, we have excluded information security from the scope of this evaluation.

This project did not include a direct assessment of compliance with requirements for training and user support, system maintenance or internal controls.

¹ OIG Audit Reports #02-04, "Review of Information Security at the RRB," February 5, 2002 and #02-12, "Fiscal Year 2002 Evaluation of Information Security at the Railroad Retirement Board," August 27, 2002.

Our evaluation was conducted in accordance with generally accepted government auditing standards as applicable to the audit objectives. Fieldwork was conducted at RRB headquarters during May through August 2002 and January 2003, to coordinate with the OIG's annual audit of agency financial statements.

RESULTS OF REVIEW

The RRB has met the major financial management system requirements of OMB Bulletin A-127. The agency's financial management systems:

- support preparation of auditable financial statements in accordance with applicable accounting standards;
- implement the U.S. Standard General Ledger at the transaction level;
- integrate budgetary and proprietary accounting; and
- support the preparation and execution of the agency's budget.

Although the RRB has been able to prepare auditable financial statements, the agency needs to adequately ensure that it will be able to meet OMB's recently accelerated timetable for financial reporting in future years. We also noted that the agency had not fully assessed its financial management systems for compliance with JFMIP requirements.

Financial Statement Reporting

The RRB needs to adequately ensure that it will be able to meet OMB's timetable for accelerated financial reporting in future years.

The RRB is not subject to the financial reporting requirements of the Chief Financial Officers (CFO) Act. However, the agency has emulated CFO Act agencies in publishing audited financial statements in accordance with the requirements and timetables established for such agencies. The RRB has published audited financial statements for each fiscal year beginning with FY 1993.

Public Law Number 107-289, signed into law on November 7, 2002, extended the requirement for audited financial statements to the RRB. On December 6, 2002, the Director of OMB advised affected agencies, including the RRB, that they would be subject to the same accelerated reporting schedules established for CFO Act agencies. Beginning with the fiscal year ending September 30, 2004, the RRB will be required to submit performance and accountability reports to OMB and the Congress by November 15, 2004.

The Bureau of Fiscal Operations prepares the agency's financial statements by manually entering data into a complex series of inter-related spreadsheets. Although

the configuration of manual and automated systems supports the preparation of auditable financial statements, the process is slow and labor intensive. The lack of an automated process for financial statement preparation will severely limit the ability of the RRB to accelerate the financial statement audit process in the future.

In August 2002, the Chief Financial Officer advised the OIG that the Bureau of Fiscal Operations intended to further automate the preparation of the RRB's financial statements and pursue additional staffing as necessary. A project team convened in February 2003 to assess the agency's options with a tentative project completion date of June 30, 2003.

Recommendation #1

We recommend that the Bureau of Fiscal Operations develop and implement a strategy to accelerate the financial reporting process.

Management's Response

Management agrees with the recommendation stating that the Bureau of Fiscal Operations began a project in February 2003 that would allow them "to generate the primary financial statements within a week after closing."

The full text of management's response is presented in Appendix II.

Compliance With JFMIP Requirements

The RRB has not fully assessed its financial management systems for compliance with JFMIP requirements.

Federal agencies are required to comply with system requirements promulgated by the JFMIP. Since 1988, the JFMIP has published detailed system requirements for thirteen areas of financial accountability. A list of these publications is included as Appendix I.

Agencies may comply with JFMIP requirements by building or modifying their financial systems to meet mandatory functional requirements. In addition, agencies may purchase software that has been tested by the JFMIP and certified compliant with its mandatory requirements.

The RRB has implemented a core financial system and integrated purchasing and budgeting subsystems that are certified JFMIP compliant. However, the agency also has several major non-integrated systems: the benefit payment, the program accounts receivable (PAR), cost accounting and personnel/payroll systems. These four systems have not been formally assessed for compliance with JFMIP requirements.

The benefit payment system is comprised of a series of automated applications that support the benefit payment process from application through payment certification. The OIG has previously cited the RRB for control weaknesses that adversely impact the agency's financial accountability for benefit payment obligations.

For example, the agency is unable to reconcile the RRA gross benefit payment liability with amounts recorded in the general ledger.² In addition, the benefit payment systems do not support direct accounting for benefit payments by fund. The various components of a railroad retirement benefit are charged to the related trust funds based on statistical estimates, rather than the summary allocation of benefits actually paid.

The PAR system is a non-integrated automated subsystem based on the U.S. Standard General Ledger. Transactions entered into the PAR system are recorded in the core financial system manually, on a summary basis. We have previously identified control weaknesses related to system configuration that adversely impact the Bureau of Fiscal Operations' ability to ensure that:

- RRA and RUIA program cash receipts as recorded in the PAR system are consistent with amounts recorded in the general ledger;
- benefits withheld to satisfy program debt are accurate and valid; and
- debt recognition is properly timed.³

Agency management cooperated with our review by completing self-assessment questionnaires for the personnel/payroll system and the managerial cost accounting systems.⁴ The completed questionnaires indicate that management believes the current combination of automated and manual systems generally comply with current JFMIP requirements. The complexity of the benefit payment system and the extensive, detailed nature of the JFMIP requirements made it impractical to include even an informal self-assessment of that system as part of our audit procedures.

The RRB's management oversight structure does not include a review for compliance with JFMIP system requirements. The current management control review process was designed to ensure the effectiveness of internal management controls and does not address externally mandated requirements for system functionality. However, management controls and system functionality are closely inter-related.

A formal, fully documented compliance assessment process will identify areas of deficiency as a basis for future improvement. Absent such a process, management will not be able to ensure that the agency's long-term information technology planning process will provide for a financial management environment that will support the increasing demand for efficiency and accountability within the Federal government.

² OIG Audit Report 00-16, "Review of Internal Control Over Financial Accounting for Debt Recoveries," September 29, 2000.

³ OIG Audit Report 02-10, "Valuation of RRA Accounts Receivable," August 19, 2002.

⁴ The Bureau of Fiscal Operations and the Bureau of Human Resources share responsibility for the personnel/payroll system. The Bureau of Fiscal Operations maintains the agency's cost accounting system.

Recommendation #2

We recommend that the Bureau of Fiscal Operations require periodic evaluations of JFMIP compliance as part the agency's existing management control review process.

Management's Response

Management agrees with the recommendation stating that the agency is "currently developing a process to coordinate the management control and computer security assessment and review process. Compliance with JFMIP requirements will be addressed as part of this effort."

The full text of management's response is presented in Appendix II.

Joint Financial Management Integrity Program
System Requirements
As of January 2003

Revenue System Requirements, January 2003

Acquisition Financial System Requirements, June 2002

Core Financial System Requirements, November 2001

Benefit System Requirements, September 2001

Property Management System Requirements, October 2000

Grant Financial System Requirements, June 2000

Guaranteed Loan System Requirements, March 2000

Seized Property and Forfeited Assets System Requirements, December 1999

Travel System Requirements, July 1999

Direct Loan System Requirements, June 1999

Human Resources and Payroll System Requirements, April 1999

System Requirements for Managerial Cost Accounting, February 1998

Inventory System Requirements, June 1995

UNITED STATES GOVERNMENT

RAILROAD RETIREMENT BOARD

MEMORANDUM

MAR 13 2003



TO : Henrietta B. Shaw
Assistant Inspector General, Audit

FROM : Kenneth P. Boehne
Chief Financial Officer

A handwritten signature in cursive script, appearing to read "Kenneth P. Boehne".

SUBJECT: Draft Audit Report -
Review of the Railroad Retirement Board's Progress in Meeting
Selected Federal Financial Management Requirements

Thank you for giving us the opportunity to comment on your draft audit report. Our response to each of your recommendations for the subject audit report is shown below.

Recommendation #1

We recommend that the Bureau of Fiscal Operations develop and implement a strategy to accelerate the financial reporting process.

BFO Response

We agree with your recommendation. The Bureau of Fiscal Operations began a project in February 2003 that will allow us to generate the primary financial statements within a week after closing. We expect to complete this project by June 30, 2003.

Recommendation #2

We recommend that the Bureau of Fiscal Operations require periodic evaluations of JFMIP compliance as part of the agency's existing management control review process.

BFO Response

We agree with your recommendation. Management control and computer security officials are currently developing a process to coordinate the management control and computer security assessment and review process. Compliance with JFMIP requirements will be addressed as part of this effort.

The initial focus of our effort is to implement annual assessments of the RRB's general support (GS) and major applications (MA) systems based on National Institute of Standards and Technology (NIST) Special Publication 800-26, Security Self-Assessment Guide for Information Technology Systems. To coordinate this process with the management control certification and review process, we are establishing a crosswalk to clarify the complex relationships between the management control assessable units, the automated systems that support them, and the GS and MA systems within which the automated systems are grouped. These efforts will be accomplished in 2003.

The crosswalk will provide the blueprint for integrating the JFMIP requirements into the computer system development life cycle and into the computer security and management control certification and assessment processes. Integrating the JFMIP requirements into the systems requirements of financial systems will ensure that, over time, JFMIP compliance is tested and documented throughout the life cycle of financial systems. This ongoing assurance will reduce the burden of annual certifications and assessment and periodic in-depth computer security and management control reviews.

Beginning in 2004, annual management control certifications of assessable units with oversight responsibility for the financial activities (identified in Attachment 1 of the OIG draft report) will address substantial compliance with JFMIP requirements based on the criteria established by the Office of Management and Budget.

In 2004, a management control review of one assessable unit with oversight responsibility for the financial activities will include a pilot assessment of the applicable requirements identified in Attachment 1. After evaluation of the pilot and resolution of any issues, the requirement will be extended to future management control reviews of all assessable units with oversight responsibility for the financial activities.